

General Fund Consensus Revenue Estimates

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**Presentation to the
Legislative Finance Committee
August 14, 2009**

Introduction

Today's revenue update reflects a state economy that is having a difficult time, as are almost all states', weathering the most severe national and world-wide recession since the "Great Depression" of 1929 to 1933.¹ Global Insight expects the National Bureau of Economic Research to declare the end of the recession as of July or August 2009, making the current recession 17 or 18 months in duration. The July Global Insight Forecast Summary explains the current situation as follows: "A bottom is in sight for output, though not for employment. We expect GDP to grow – albeit slowly – in the second half of the year, but not strongly enough to stabilize employment until 2010." Global Insight and FOR-UNM – our state macroeconomic forecaster – expect job losses in the State through the end of the calendar year and, perhaps, into the first quarter of 2010. This job weakness is reflected in substantial reductions in expected revenues for FY09 through FY14. The root causes are well known: mortgage defaults and home foreclosures, which led to a national financial crisis; falling house prices and resulting severe decreases in household net wealth; falling stock market prices; and a national and world-wide recession. The good news is that the end of the recession is in sight. After we have dealt with FY09 and FY10 shortfalls, revenue growth is likely for FY11 through FY14.

The huge \$787 billion federal fiscal stimulus package continues to roll out. The New Mexico Office of Recovery and Reinvestment has identified \$3.188 billion in estimated fiscal stimulus funds for New Mexico, of which at least \$1.1 billion has been made available and \$142.5 million paid out². This revenue

¹ The "Great Depression" began August 1929 and extended 43 months through March 1933. The 1973 oil crisis and 1973–1974 stock market crash recession lasted 16 months from November 1973 to March 1975 and the "Early 1980's recession", caused by inconsistent oil supply in the wake of the Iranian revolution and tight monetary supply needed to curb inflation extended 16 months from July 1981 to November 1982. The current recession began December 2007.

² Recovery.gov – the federal government website intended to track stimulus funds shows about \$2.4 billion in identified expenditures, \$1.1 billion which has been made available and \$142.5 million paid out. The NMORR data are more current and more accurate.

estimate assumes that at least \$132 million of fiscal stimulus funds will be available on the revenue side to balance the FY09 budget; about \$332 million was built into the appropriation side of the budget for FY10 from the increased federal medical assistance percentage and the education stabilization funding.

Figure 1 illustrates the general fund historical and projected revenues and percent change from FY1982 through the forecast period.

The key factor in this update to the revenue forecast is not natural gas and crude oil prices and volumes as has been true in the last few years, but rather a decline in the broad based revenues that are responsive to the weak economy. These revenues include gross receipts tax,

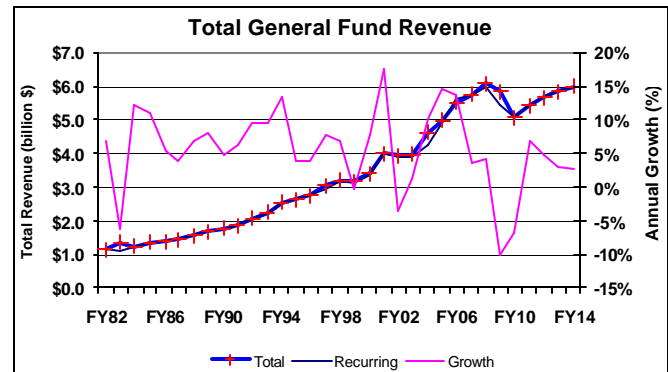


Figure 1 – General Fund Revenue History

corporate income tax, personal income tax and motor vehicle excise tax. Receipts from these sources generally held up during most of FY09, but receipts for the last three months, including the critical final settlement period for personal income tax around April 15, have been below projections. Other states experienced this lower performance, with some states reporting year-on-year declines of as much as 40 percent.

Table 1 is an extract from the full assumptions shown in Appendix Table 1.

Table 1 – Extract from Appendix Table 1 – Economic Indicators						
August 2009	FY2009		FY2010		FY2011	
	Feb 09 Est.	Aug 09 Est.	Feb 09 Est.	Aug 09 Est.	Feb 09 Est.	Aug 09 Est.
US Real GDP Growth (level annual avg, % yoy)*	-1.2	-1.6	-0.8	-0.8	3.2	2.5
NM Non-Agricultural Employment Growth (%)	-0.6	-1.0	-0.1	-0.9	1.7	1.6
NM Personal Income Growth (%)***	5.3	5.6	0.8	2.2	2.4	2.7
NM Private Wages & Salaries Growth (%)	1.8	2.6	0.7	1.2	3.4	3.3

Although the U.S. GDP growth rate is now forecasted to be lower in FY09, FY10 and FY11 than in the February forecast, New Mexico personal income and private wages and salaries are expected to be somewhat stronger. Employment growth, however, is expected to be depressed more than reported in February.

Table 2 summarizes oil and natural gas price and production assumptions from Appendix Table 1. In general, FY09 oil prices and volumes are somewhat stronger than forecast in February. Natural gas prices are virtually the same for FY09 and somewhat lower than the February estimate for FY10 and FY11. Natural gas volumes are slightly stronger than in the February forecast. With these changes in assumptions, oil and natural gas revenues will be about \$32 million stronger than estimated in February for

FY09. For FY10, FY11 and FY12, total oil and natural gas revenues are currently estimated to be between \$1.6 million and \$5.7 million more than estimated in February.

Table 2 – Extract from Appendix Table 1 – Economic Indicators						
August 2009	FY2009		FY2010		FY2011	
	Feb 09 Est.	Aug 09 Est.	Feb 09 Est.	Aug 09 Est.	Feb 09 Est.	Aug 09 Est.
NM Oil Price (\$/barrel)	\$62.00	\$65.50	\$47.00	\$63.00	\$53.00	\$70.00
NM Taxable Oil Sales (million barrels)	60.0	62.5	59.4	60.9	58.8	59.6
NM Gas Price (\$ per thousand cubic feet)	\$5.60	\$5.60	\$4.80	\$4.30	\$6.20	\$5.60
NM Taxable Gas Sales (billion cubic feet)	1,350	1,390	1,300	1,358	1,280	1,324

The current forecast for recurring and total revenues and changes relative to the February 2009 forecast are shown in Table 3. Since the February forecast, predicted **recurring** revenue for FY09 has decreased by \$309.1 million, and the FY10 forecast has been lowered by \$432.6 million. The FY11, FY12 and FY13 forecasts have also been decreased from the February forecast. After including all of the action known as the “Solvency Package” and reversions and transfers, FY09 **total** revenues are still about \$121.5 million short of restoring a 10 percent reserve. Similarly, FY10 total revenues are short an additional \$427.7 million from maintaining a 10 percent (of current year) reserves level, assuming that FY09 ending reserves are restored to the same 10 percent level. Total general fund revenues are not expected to exceed the FY08 peak level of \$6,062.6 million before FY15.

Table 3 –Table of Changes						
	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14
	Prelim	Estimate	Estimate	Estimate	Estimate	Estimate
Recurring Revenues (Dollars in millions)						
February 2009 Forecast (adj. for session action)	5,727.0	5,484.6	5,715.6	5,972.3	6,160.8	
August 2009 Forecast	5,417.9	5,052.0	5,397.8	5,660.8	5,828.0	5,987.5
Change from February forecast	-309.1	-432.6	-317.9	-311.5	-332.8	
Total Revenues (Dollars in millions)						
February 2009 Forecast (adj. for session action)	6,013.9	5,484.6	5,715.6	5,972.3	6,160.8	
August 2009 Forecast	5,843.4	5,052.0	5,397.8	5,660.8	5,828.0	5,987.5
Change from February forecast	-170.5	-432.6	-317.9	-311.5	-332.8	
Approximate shortfall to maintain 10% reserves	-121.5	-427.7				

The full revenue estimate is shown in Appendix Table 2. While the news the consensus group is reporting today is not welcome, neither is it unexpected.

Table 4 contains an extract of Appendix Table 3, the General Fund Financial Summary, which details the estimated balances in each of the various reserve funds of the General Fund. DFA has previously reported to this Committee that the structure of the reserves is an issue that needs to be addressed so that the General Fund Operating Reserve balances are sufficient to pay the obligations in the appro-

priation account. However, the critical issue at this juncture is the aggregate reserve amount as a percentage of current year appropriations. The preliminary estimate of FY09 revenues and appropriations indicates an 8 percent balance in reserves. However, as a consequence of the revenues reported here, the estimated reserve balance for FY10 will be -\$0.4 million, or 0 percent of appropriations.

Table 4 – Extract of Appendix Table 4 – General Fund Financial Summary				
	Audited FY07	Preliminary FY09	Estimated FY10	Estimated FY11
APPROPRIATION ACCOUNT				
Transfer to/from General Fund Operating Reserve	92.6	-115.9	-535.6	0.0
GENERAL FUND OPERATING RESERVE				
Ending Balance	247.2	129.9	-408.0	-410.3
STATE SUPPORT RESERVE				
Ending Balance	1.0	1.0	1.0	1.0
APPROPRIATION CONTINGENCY FUND				
Ending Balance, Excluding Education Reform	27.5	9.2	22.5	11.7
Ending Balance, Education Reform	69.1	19.0	59.0	59.0
TAX STABILIZATION RESERVE				
Ending Balance	254.4	198.7	198.7	198.7
TOBACCO SETTLEMENT PERMANENT FUND				
Ending Balance	135.9	121.0	126.4	161.0
TOTAL BALANCES	735.1	478.8	-0.4	21.2
Reserves as a % of Current-year Recurring Appropriations	13.0%	8.0%	0.0%	0.4%
New Money – recurring				(89.9)
Deficit for current year (Reserving 10 percent of current year recur. Approps)		(121.5)	(427.7)	
Restricted sub-accounts	62.5%	70.7%		

The consensus forecast group, consisting of the career economists in the Legislative Finance Committee, the Department of Finance and Administration, the Taxation and Revenue Department and the Department of Transportation, will conduct the next estimate in mid-October³, or somewhat earlier, if necessary, to accommodate the recently announced special legislative session. The consensus group will prepare a December pre-session update and a mid-session review just before the midpoint of the 2010 session.

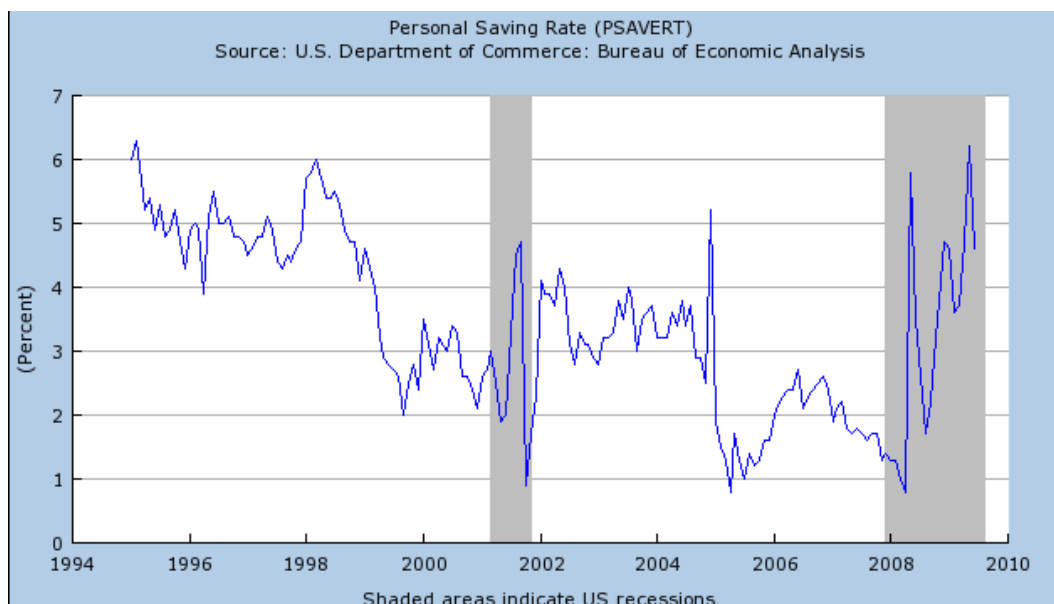
Review of the National Economy

- The national economy continues to struggle, although there are recent signs that the bottom of the recession has been reached. However, while output is expected to begin growing this quarter, we may have many more months of job losses before U.S. employment turns around.
- The February forecast reflected national job losses in each of the preceding 13 months, anticipated negative GDP growth for at least four quarters (2008:Q3, 2008:Q4, 2009:Q1 and 2009:Q2). The February forecast also expected consumer prices, once increasing rapidly, to decrease.

³ The Governor's press release of August 11, 2009 indicated that the Special Session would be "probably in October." The consensus group will not have final reversion data until October 5 or 6.

- Since the February forecast was made, the national economic outlook further weakened. The August forecast by IHS Global Insight (GI) is for even weaker growth in real GDP in 2009, with somewhat higher (but still low) inflation in 2009 and 2010.
 - US real GDP is now expected to decline by 1.6 percent in FY09, rather than the 1.2 percent decline assumed in the February forecast.
 - Inflation is expected to increase. Rather than a projected inflation rate of 1.0 percent in FY09, prices are now expected to rise by 1.4 percent. The February forecast assumed a decline in prices in FY10 of 0.7 percent; prices are now expected to rise 0.5 percent.

While national consumer spending and sentiment remains weak, or perhaps as a collateral consequence, personal savings rates have recently increased dramatically. This is a good sign, as personal savings can be loaned by banks and other investors to start and expand businesses and purchase cars, homes and consumer goods. However, as the savings rate increases, consumption falls. From a revenue standpoint, consumption generates more gross receipts tax revenue than does capital spending.



The customary Executive Summary for GI's July U.S. macro forecast is included as a side-bar on the next page. The numerical Table 5 – "A Quick Look at the Numbers" is included on the following page.



U.S. Economy

by Nigel Gault

This information was last updated on Wed 01 Jul 2009, 3:34 PM EDT (19:34 GMT)

The Road to Recovery

The road to recovery will be a long one, but the first steps are being taken. We expect the rate of contraction in GDP to have slowed in the second quarter to minus 2.1%, from minus 5.5% in the first quarter. Absent the continuing, severe inventory adjustment, growth would be only just below zero. In the second half of the year, the inventory cycle will begin to turn and we expect to see GDP moving higher. But a rapid recovery is not in prospect, after so extreme a financial shock. The unemployment rate is not likely to peak until some time in the first half of 2010, at around 10.3%.

Transition to Growth. As is characteristic of a turning point in the economy, the incoming indicators are a mixed bag, and it is getting harder for them to beat expectations. Up to now, indicators have mostly pointed to an economy contracting, but less sharply than before. As we move into the second half of the year, indicators should increasingly point to growth. The latest manufacturing ISM report for June shows both orders and production indicators at around the breakeven 50 mark. It also shows a very severe contraction in inventories. This combination is setting the stage for an upturn in manufacturing production during the third quarter, as some industries (notably automobiles) will need to increase production to prevent inventories from running down too far.

Consumer Spending Has Flattened Out. Consumer spending essentially moved sideways in the second quarter, edging down an estimated 0.3% from the first quarter. Reduced tax withholding and one-time payments to Social Security recipients have boosted incomes, but that has gone into saving rather than spending. And rising gasoline prices have squeezed spending power. Given reduced household wealth, debt overhangs, and still-tight credit, it is hard to make a case for a robust consumer recovery, but we do expect spending to gradually improve over the rest of the year as the labor market deterioration becomes progressively less severe.

Housing Is Bottoming Out. Most key indicators of housing activity (home sales, housing starts and permits) are showing signs of stabilization, at least for single-family units, based upon dramatically improved affordability—for those who can qualify for credit. Even though there will be a delay after housing starts hit bottom until residential construction spending starts to rise, the latter should occur by year-end.

Business Equipment Spending to Turn by Year-End. We expect second-quarter business equipment spending to drop 12.2%, about one-third the rate of decline seen in the first quarter. The bellwether demand indicator—nondefense capital equipment orders excluding aircraft—appears to have stabilized. We expect equipment spending to begin its recovery in the second half of the year.

Business Construction Spending Has a Long Way to Fall. Nonresidential construction spending, in contrast to equipment spending, probably rose in the second quarter. But the gains are narrowly based in oil refining and power generation, and are unsustainable. The trend for commercial construction such as retail developments, offices, and hotels remains downwards. Business construction spending has much further to fall.

Foreign Trade Will Become a Drag. The United States is likely to lead rather than lag the global recovery, and we therefore expect imports to move up earlier and more sharply than exports. Foreign trade has cushioned the U.S. downturn, but in a similar fashion we expect it to act as a brake on the recovery, at least in its initial phases, as imports revive.

Inflation Threat Not Immediate. We think that some commodity prices—notably oil—have moved up in advance of the fundamentals, and see some correction as likely. But even without such a correction, we see too much excess capacity in product markets and, especially, in the labor market for an inflation spiral to take hold any time soon. Inflation is a real long-term threat, and will require "exit strategies" from both monetary and fiscal stimuli. But there is sufficient time available to plan a way out. We do not expect the Federal Reserve to begin to raise interest rates until the second half of 2010.

Table 5 – A Quick Look at the Numbers

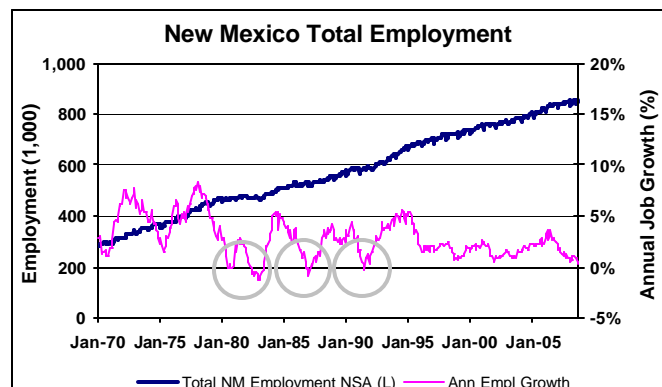
	Quarterly				Annual				
	09:1	09:2	09:3	09:4	2008	2009	2010	2011	2012
Real GDP (Percent change)	-5.5	-2.1	0.6	1.1	1.1	-2.8	1.5	3.1	3.8
Federal Funds Rate (Percent)	0.18	0.18	0.13	0.13	1.93	0.16	0.24	1.70	3.34
Ten-Year Treasury Yield (Percent)	2.74	3.32	3.57	3.65	3.67	3.32	3.72	3.91	4.50
Oil Prices, WTI (Dollars/barrel)	43	60	59	60	100	55	64	73	79
Consumer Price Index (% change y/y)	-0.2	-1.0	-2.0	0.6	3.8	-0.6	1.8	2.4	2.2
Housing Starts (Millions)	0.53	0.51	0.57	0.62	0.90	0.56	0.87	1.29	1.56
Consumer Sentiment (Univ. of Michigan)	58	68	67	68	64	65	72	73	76
Unemployment Rate (Percent)	8.1	9.3	9.8	10.1	5.8	9.3	10.2	9.7	8.8

New Mexico Economic Review and Outlook

- As measured by (seasonally adjusted) employment levels, New Mexico has been in recession since May 2008. As shown in Table 6, the longest duration for a post-WWII recession is 19 months, from July 1953 to February 1955. The Bureau of Business and Economic Research (BBER) is currently forecasting job losses until January 2010. Figure 2 exhibits the most recent three New Mexico recessions.
- The February forecast anticipated slow economic growth for New Mexico this year and next and then a pickup to normal levels after FY11. Employment growth was expected to fall to -0.6 percent for FY09, fall another 0.1 percent for FY10 and then increase near 1.7 percent annually thereafter, with the unemployment rate expected to remain near 4.5 percent through the next five years after peaking at 4.9 percent in FY10. Personal income growth was expected to reach 5.3 percent in FY09, fall to 0.7 percent in FY10 and to remain around 3.5 percent to 4.5 percent thereafter. The latest forecast from the FOR-UNM model, which is based on the May IHS GI fore-

Table 6 – New Mexico Recession Dates

Peak	Trough	Duration	% SA Decline Peak to Trough
Jul-43	Mar-44	8	-3.3%
Jul-53	Feb-55	19	-5.0%
Jul-60	Mar-61	8	-4.0%
Jul-66	Oct-67	15	-4.2%
Jan-82	Mar-83	14	-1.6%
Aug-86	Feb-87	6	-0.3%
May-08	Jan-10?	21?	-5.0%?

**Figure 2 – New Mexico Employment History**

cast, indicates further weakness in employment, but increases in wages and salaries and personal income in FY09 and FY10. Employment revisions and regularly scheduled BEA personal income revisions may change the absolute numbers, but not the general pattern.

- Based on the most recent data, job growth has slowed in New Mexico from over 3 percent in mid-2006 to -2.5 percent as of May 2009 revised reports. Wyoming, Texas and Oklahoma grew faster than New Mexico in the region for the period May 2008 to May 2009, while New Mexico grew faster than Utah, Colorado, Nevada, California and Arizona. The U.S. average growth for the May 2008-May 2009 period was -4.0 percent. Despite the significant job losses, New Mexico still ranked 11th among all states in job growth for this period. The recent employment history and forecast are shown in Figure 3.

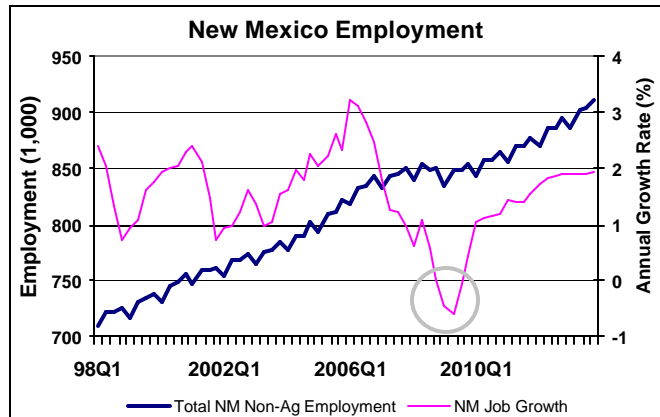


Figure 3 – New Mexico Employment

- Compared to the forecast made in February, where unemployment was expected to peak at 4.9 percent, New Mexico's May 2009 unemployment rate was 6.5 percent, up 2.5 percent year over year and 0.7 percent from the prior month. The national May 2009 unemployment rate was 9.5 percent, up 3.9 percent year over year and slightly from the prior month.
- Table 7 shows the most recent revised state sectoral job numbers reported by the Department of Workforce Solutions for May 2009. The New Mexico economy lost 21,200 nonagricultural jobs year over year – a 2.5 percent decline. This is better performance than the national annual job loss rate of 3.1 percent. The U.S. job market experienced a month-over preliminary loss of 274,000 jobs in July 2009, compared to preliminary losses of 467,000 jobs in June 2009, down from a peak loss of 741,000 jobs in January 2009.
- Total Personal Income – New Mexico's total personal income grew to \$64.4 billion in the first quarter of 2009. Using this measure, economic activity expanded at an annual rate of 2.9 percent from Q1 2008 to Q1 2009, down from 4.3 percent the prior quarter. National growth in personal income over the same period was 0.7 percent, down 1.3 percent from the prior quarter. New Mexico ranked 43rd nationally in income in 2007, a considerable improvement from the 48th ranking in per capita income in 1998.
- Wages and Salaries – Year over year, New Mexico had -0.6 percent growth in wage and salary distributions in construction, -8.3 percent growth in manufacturing, -4.5 percent in retail and -2.1 percent in wholesale. New Mexico's total wage and salary disbursements reached an annual total

Table 7 – Nonagricultural Wage and Salary Employment					
	Revised	Revised	Revised	Change	
NEW MEXICO	May-09	April-09	May-08	Monthly	Yearly
TOTAL NONAGRICULTURAL EMPLOYMENT	830,600	825,800	851,800	4,800	-21,200
GOODS-PRODUCING	100,600	99,500	114,800	1,100	-14,200
SERVICE-PROVIDING	730,000	726,300	737,000	3,700	-7,000
NATURAL RESOURCES AND MINING	19,300	19,200	21,000	100	-1,700
CONSTRUCTION	49,900	48,600	58,500	1,300	-8,600
MANUFACTURING	31,400	31,700	35,300	-300	-3,900
WHOLESALE TRADE	22,700	22,700	24,000	0	-1,300
RETAIL TRADE	91,900	91,200	96,000	700	-4,100
TRANSPORTATION, WAREHOUSING, AND UTILITIES	23,800	23,600	25,100	200	-1,300
INFORMATION	15,300	15,000	15,400	300	-100
FINANCIAL ACTIVITIES	33,600	33,700	34,800	-100	-1,200
PROFESSIONAL AND BUSINESS SERVICES	105,000	105,000	107,600	0	-2,600
EDUCATIONAL AND HEALTH SERVICES	119,700	118,700	116,100	1,000	3,600
Educational Services	15,200	15,300	14,700	-100	500
Health Care and Social Assistance	104,500	103,400	101,400	1,000	3,000
LEISURE AND HOSPITALITY	86,200	84,400	87,800	1,700	-1,700
Arts, Entertainment, and Recreation	8,500	8,400	8,700	100	-200
Accommodation and Food Services	77,700	76,000	79,100	1,600	-1,500
OTHER SERVICES	29,400	29,100	29,800	200	-500
GOVERNMENT	202,400	202,900	200,400	-300	2,200
Federal Government	32,300	32,200	30,900	400	1,700
State Government	60,400	61,300	60,700	-1,000	-400
State Government Education	29,200	29,800	28,600	-700	500
Local Government	109,700	109,400	108,800	300	900
Local Government Education	59,400	59,300	59,200	100	200

\$34.1 billion in the first quarter of 2009, a 2.7 percent growth year over year. US average hourly earnings decreased 0.4 percent year over year in the first quarter of 2009, down 3.0 percent from the prior quarter. Occupational Employment Statistics from May 2009 show New Mexico's average annual wage for all occupations at \$37,490 in May 2008, 89.7 percent of the nation's average.

- Construction – Housing contributed to a loss of 8,300 construction jobs, a 14.2 percent drop, in the last year, and total permits for new housing construction are down 21.4 percent in the first quarter of 2009. New Mexico housing valuations are down for the first quarter of 2009 year on year. In May 2009, New Mexico ranked 29th among states for foreclosure rates, which are low relative to the nation. Figure 4 shows the F-W Dodge

Total Construction Contracts data for New Mexico.

- Trade – Trade is expected to have negative year over year growth in 2009. For May, retail trade lost 3,800 jobs, or -4.0 percent, year over year, with a weak economy and several store closings in cities around the state this year. The wholesale trade sector lost 1,100 jobs (-4.6 percent). The



transportation, warehousing and utilities sector lost 1,300 jobs (-5.2 percent).

- Tourism – New Mexico's accommodation and food services sector is down 3.6 percent year over year for the first quarter of 2009, with no new jobs in arts, entertainment and recreation year over year.
- Government – New Mexico's government sector gained 2,100 jobs (1.1 percent) year over year in the first quarter of 2009, mostly in federal jobs associated with the 2010 Census and from gains at the local level, mostly from expansions of Native American operations, subject to the declining economy.
- Interest Rates – The 30-year fixed-rate mortgage (FRM) was 5.42 percent in June 2009, up from the preceding five months, according to Freddie Mac. On June 24, 2009 the Federal Reserve maintained the target for the federal funds rate to a range of 0 to 0.25 percent. The target was last changed, from 1.00 percent, on December 16, 2008
- Home Prices – According to the Federal Housing Finance Agency (FHFA) House Price Appreciation Ranking (HPAR), New Mexico's house prices were down 6.4 percent year over year for the first quarter of 2009. This ranks New Mexico 38th in the nation for annual housing appreciation, down from 29th in the prior quarter.
- New Mexico home foreclosure trends: In the first six months of 2009, RealtyTrac reported a New Mexico foreclosure rate of less than one fourth the national rate. RealtyTrac ranks New Mexico 37th among states for foreclosures for the first half of the calendar year and 31st among states for foreclosures for the latest quarter. New Mexico continues to compare favorably to national figures.

FY09 Revenue Update

Total General Fund revenues for FY09 are expected to be about \$170.5 million below the February forecast and **recurring** revenues \$309.1 million less than estimated in February. These shortfalls are due to substantial weakness in the broad-based taxes; oil and natural gas revenues are actually a bit stronger than forecast in February. Table 3, presented earlier on page 3 of this report and Table 8, extracted from Appendix Table 2, detail these FY09 differences. Table 3 shows the differences by recurring and non-recurring totals, while Table 8 details the differences by tax source. Of particular note, the \$309.1 million recurring shortfall for FY09 is composed of a \$354.5 million shortfall contributed by Gross Receipts tax, PIT and CIT partially balanced by \$45.3 million in net surplus from all the other recurring sources. The estimating error is very substantial for this relatively short forecast period, but virtually no state government adequately anticipated the depth or duration of the recession. DFA will not close the books on FY09 until mid- or late-October. Audited and final accrued receipts, particularly for GRT, PIT and CIT will not be known with certainty until mid-December.

Table 8 – Change in FY09 revenues from February 2009 Estimate (millions)			
FY09 Revisions by Tax Source	Feb_09 Est	Aug_09 Est	Chg frm prev.
Total General Sales Taxes	1,973.0	1,910.0	(63.0)
Total Selective Sales Taxes	412.9	400.4	(12.5)
Total Income Taxes	1,506.5	1,215.0	(291.5)
Total Mineral Production Taxes	411.0	440.2	29.2
Total License Fees	50.4	53.8	3.4
Total Investment Income	684.5	690.9	6.4
Total Rents, Royalties and Bonuses	540.7	543.4	2.7
Total Miscellaneous Receipts	43.2	48.3	5.1
Tribal Revenue Sharing	65.6	64.9	(0.7)
Reversions	39.3	51.0	11.7
Total Recurring Revenue	5,727.0	5,417.9	(309.1)
Total Adjustments & Non-Recurring	286.9	425.6	138.6
Grand Total Revenue	6,013.9	5,843.4	(170.5)

The Center for Budget and Policy Priorities released an updated report on state budget stress on Wednesday. A pull-quote from this report is included to the right. We have brought copies of the full report for the convenience of the committee. To summarize this lengthy report, New Mexico is expected to have an FY10 gap of 6.3 percent, putting it in 43rd rank of the 48 states which face or faced shortfalls for the current fiscal year. These data have not been adjusted for this revenue estimate.⁴

STATE FISCAL STRESS CONTINUES

- At least 48 states have addressed or still face shortfalls in their budgets for fiscal year 2010.
- Just one month into the new fiscal year, new shortfalls of \$26 billion have opened up in the adopted 2010 budgets of at least 13 states and the District of Columbia. Shortfalls for fiscal year 2010 – those already addressed and those still open – total \$165 billion.
- At least 34 states already anticipate deficits for 2011. Initial estimates of these shortfalls total almost \$67 billion. As the full extent of 2011 deficits become known, shortfalls are likely to equal of at least \$180 billion.
- Combined budget gaps for the next two years – state fiscal years 2010 and 2011 – are estimated to total at least \$350 billion.

FY10 through FY13 Revenue Forecasts

New Mexico's fiscal situation is better than most state's for several reasons. Although the General Fund gap for FY09 is comparable in percentage terms to other states', we entered FY09 with high levels of reserves, 13.0 percent of appropriations. New Mexico has also made dramatic strides under Governor Richardson's leadership to improve its economic climate and position itself for long-run, sustained economic growth. The results of these initiatives are reflected in the relative strength of the New Mexico economy over the forecast period, and the

⁴ If the \$428 million FY10 shortfall is included in the analysis, New Mexico would rise to 30th ranking and 14.13% deficit.

greater resilience in General Fund revenues in the face of the longest recession in post-WWII history. There is no question that revenues will not rebound quickly, but the State should be able to weather the current economic storm without severely affecting key services to New Mexicans.

The general revenue outlook has worsened since the February forecast, which was based on expected near-term weakness in the oil and gas-related revenues, followed by slowly growing oil and gas prices, and moderate growth in gross receipts, personal income, corporate income, motor vehicle excise taxes and investment income. This forecast of slow growth was realized for much of FY09, but growth in the broad-based taxes has now virtually stopped or turned negative.

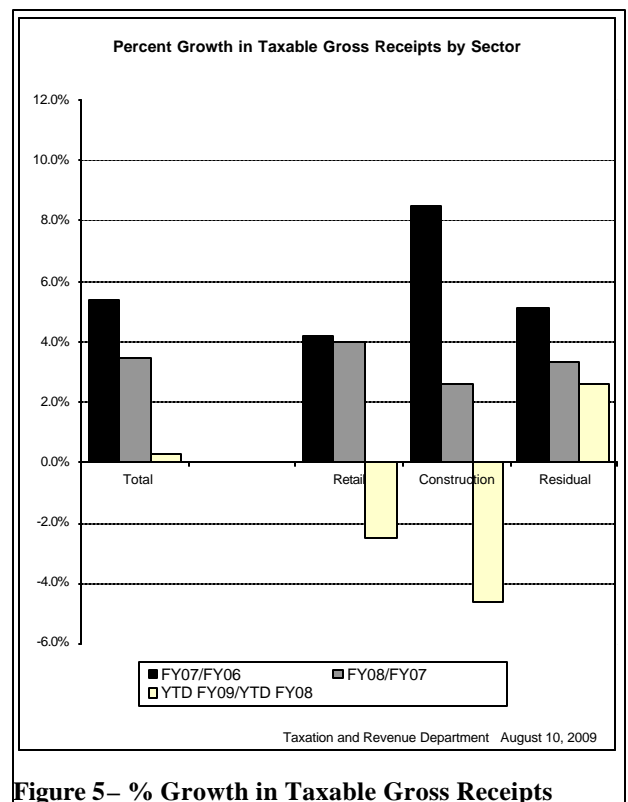
Appendix Table 1 provides detail on the economic assumptions underlying this forecast, and Appendix Table 2 provides detail on the forecast for each General Fund revenue source.

Gross Receipts and Compensating Taxes

Gross receipts and compensating taxes are the largest source of General Fund revenues, representing about 35 percent of the total recurring revenue. These taxes are expected to fall by 0.7 percent from FY08 to FY09. Figure 5 illustrates how the construction sector went from being one of the biggest drivers of growth in FY07, to one of the largest contributors to slow growth in FY08, to an greater drag in FY09, helping to pull revenue lower than the year before for the first time in decades. The retail trade sector also experienced falling receipts in FY09.

Figure 6 shows that monthly taxable gross receipts growth patterns remained mixed into last winter and then turned increasingly negative. The momentum in taxable gross receipts has deteriorated rapidly in recent months, dragged down especially by the construction sector.

In FY10 the overall gross receipts and compensating tax base is expected to see the largest drop ever. The fall in revenue will be slightly cushioned by increased compliance through the “Fair Share” initiative, but revenue is still forecast to fall by 1.0 percent. Revenue growth is expected to return during FY11, with growth of 3.8 percent. Growth is then expected to moderate slightly with 3.2 percent expected for FY12, 3.1 percent for FY13, and 3.0 percent for FY14.



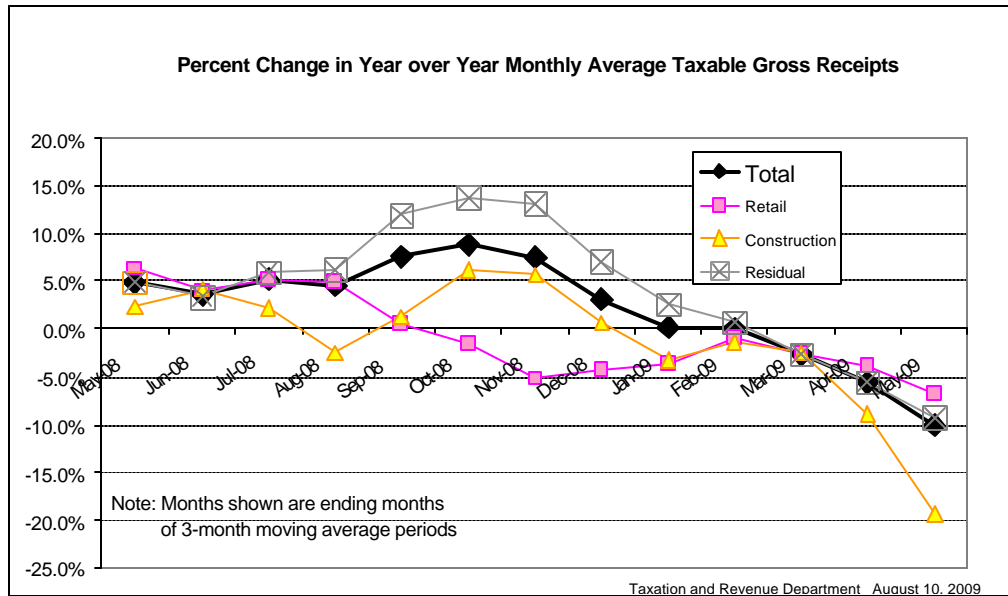


Figure 6 – % Change Y-o-Y Monthly Average TGR

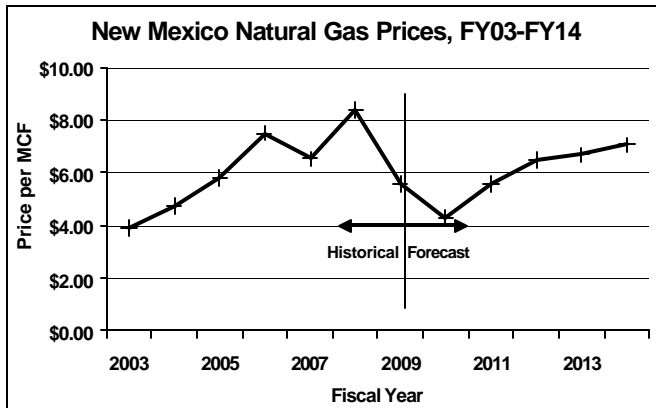


Figure 7 – NM Natural Gas Prices

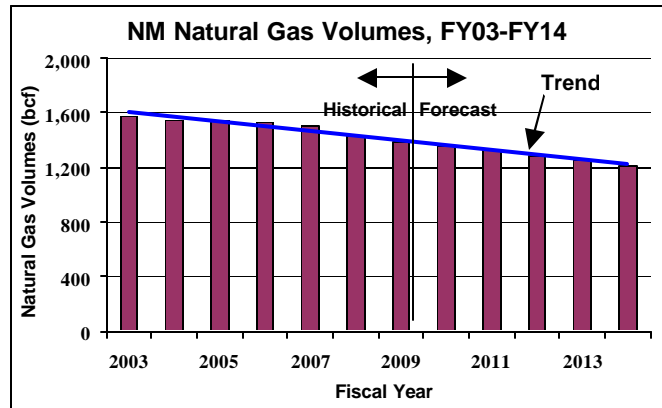


Figure 8 – NM Natural Gas Volumes

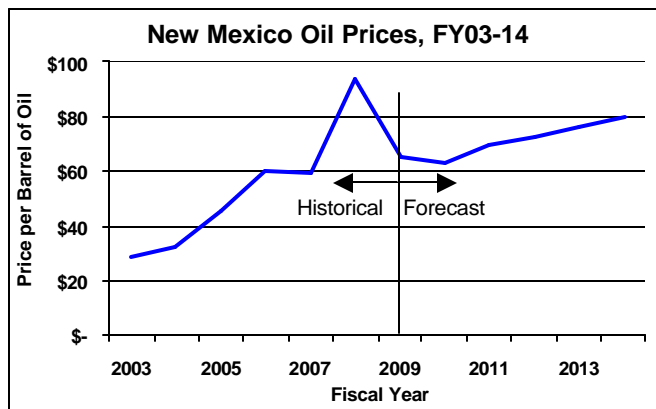


Figure 9 – NM Oil Prices

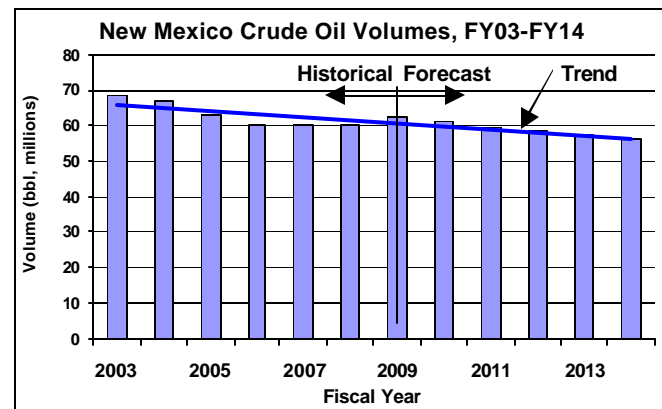


Figure 10 – NM Oil Volumes

Oil and Natural Gas Revenues

Oil and natural gas and volumes and prices over the past six fiscal years are shown in the figures 7, 8 9 and 10, along with estimates for FY09 and forecasts for the following five years.

The forecasted decline/growth rates reflected in these graphs are shown in the following table:

Table 9 – Forecasted Decline/Growth Rates						
Fiscal Year	FY09	FY10	FY11	FY12	FY13	FY14
NM Natural Gas Price	-33.3%	-23.1%	30.2%	16.1%	3.1%	6.0%
NM Natural Gas Volume	-2.4%	-2.3%	-2.5%	-2.6%	-3.0%	-2.8%
NM Crude Oil Price	-31.0%	-3.82%	15.9%	19.2%	25.8%	32.5%
NM Crude Oil Volume	3.8%	-2.6%	-1.3%	-3.2%	-4.8%	-6.5%

In FY08, 63.0 percent of natural gas was produced in the San Juan Basin, 35.2 percent in the Permian Basin, and 1.8 percent in the Raton Basin. These percentages have not changed significantly through the third quarter of FY09. By land type, 64.0 percent was produced on federal lands, 16.7 percent on State lands, 15.9 percent on private lands, and 3.4 percent on Indian lands. These percentages also have not changed significantly through the third quarter FY09. For the first ten months of FY09, the weighted average price received by New Mexico's natural gas producers was \$7.50. The Consensus Forecast Group expects a final weighted average price of \$5.60 for FY09.

During FY08, monthly natural gas volumes averaged 118.7 billion cubic feet (bcf). Monthly volumes have averaged 115.3 bcf during the first ten months of FY09 (data for April is the latest available). Oil and gas producers tend to amend their returns for quite some time, so it is likely that figures for FY09 will be revised upward. The Consensus Forecast Group forecasts final production of 1,390 bcf for FY09.

In FY08, 96.2 percent of oil was produced in the Permian Basin and 3.8 percent in the San Juan Basin. By land type, 42.9 percent was produced on federal lands, 37.8 percent on State lands, 18.6 percent on private lands, and .8 percent on Indian lands. During the first ten months of FY09, the weighted average price received by New Mexico's oil producers was \$65.39. The Consensus Forecast Group expects a final weighted average price of \$65.50 for FY09.

During FY08, monthly oil volumes averaged 5.0 million barrels. Monthly volumes have averaged 5.2 million barrels during the first ten months of FY09. The Consensus Forecast Group forecasts final production of 62.5 million barrels for FY09.

FY09 collections for the Oil and Gas School Tax are expected to exceed the February 2009 forecast by approximately \$20.5 million. Federal mineral leasing (royalty) payments are expected to exceed the February forecast by \$1.0 million.

Total General Fund revenues from oil, natural gas and hard minerals in FY09 are expected to exceed the February forecast by \$31.9 million. The forecast for FY10 is virtually unchanged. Figure 11 shows the percentage share of the general fund from these

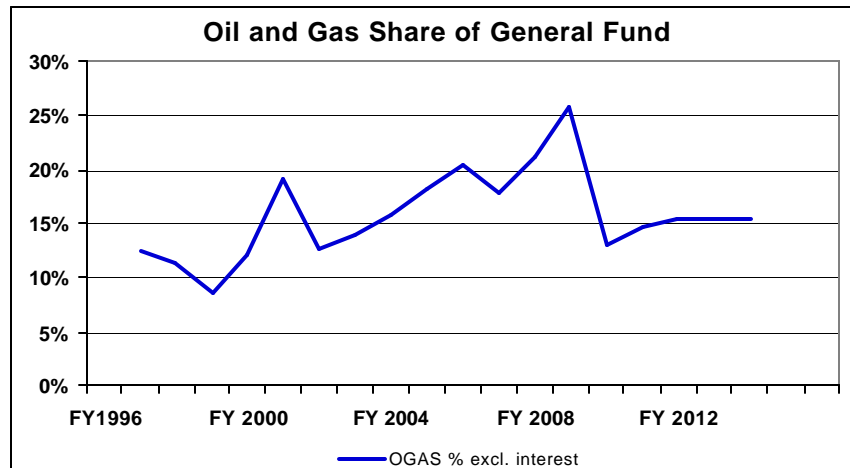


Figure 11 – Oil and Gas Share of General Fund

revenues, which include the oil and gas emergency school tax; oil, natural gas and coal conservation taxes; resource excise tax; natural gas processors tax; federal mineral leasing revenues and state land office revenues.

Personal Income Tax

Personal income taxes comprise approximately 20 percent of General Fund recurring revenues. Several factors have caused FY09 personal income tax revenues to decline from FY08 levels by more than 16 percent. The recession has caused larger than anticipated declines in capital gains, resulting in an estimated \$60 million decline in FY09 personal income tax revenues. Capital gains are expected to remain low in FY10, but to slowly recover over the following years. Estimated payments are also lower than expected, although it is difficult to ascertain whether the decrease in payments is due to a change in payment patterns, lower-than-expected personal income or some combination of both. For this revenue forecast, the lower payments are assumed to be the result of lower personal income levels; these levels are lower than are currently being forecast by the Bureau of Business and Economic Research. In addition, part of FY08 personal income tax revenues were due to the higher rates in effect in tax year 2007. The combined effect of these factors is a reduction in forecast for personal income tax receipts in FY09 and FY10 of nearly \$200 million from the February estimate. The reductions in FY11 and later years are somewhat smaller.

Corporate Income Tax

Profits of non-oil and gas corporations are expected to continue to drop according to the recent Global Insight forecast, resulting in lower corporate income tax revenues. In addition, net operating losses

(NOLs) carried forward from 2008 are expected to lower corporate income tax revenues in FY10. Total credits administered as corporate income tax refunds will total about \$80 million for FY09. These credits include the film production tax credit. Total credits are forecasted to remain at the FY09 level in FY10, after which total credits are expected to grow steadily through FY14. The above factors are expected to reduce corporate income tax revenues by \$93 million in FY09 and \$71 million in FY10 from the February forecast amounts, and by lesser amounts thereafter.

Selective Excises

Selective excise taxes, particularly the motor vehicle excise tax, are sensitive measures of consumer sentiment. The category total is expected to grow by 2.4 percent in FY10, in spite of a 2.5 percent decline in motor vehicle excise taxes. The federal “Cash for Clunkers” program is anticipated to have a noticeable positive effect on the motor vehicle excise tax, adding as much as \$5 million to collections in FY10. For FY11, insurance revenues will continue to grow, while motor vehicle excise tax will grow slowly from a lower base.

Reversions

Over the past six years, reversions have averaged about \$41 million per year to the General Fund and about \$5.0 million to the Appropriation Contingency Fund. However, the usual pattern has been for agencies to wait until after their agency audit has been completed to remit the amount of reversion calculated by the auditors. On average, 27 percent of reversions from any particular fiscal year are remitted and booked timely – by September 30 of the fiscal year following the allotment. 57 percent of reversions are remitted with a one-year lag, as agencies remit reversions pursuant to completed audits. In this estimate, however, FY09 reversions are calculated to be only \$31 million by September 30. FY09 recurring reversions have been increased by \$20 million, anticipating a year-ending effort by DFA staff to “shake the trees”, and ask agencies to remit estimated reversion amounts to be recognized as revenue prior to the cutoff date of September 30. These revenues are scored as recurring because of the difficulty of determining whether a particular reversion is recurring or non-recurring, timely or delinquent.

In addition to these regular, recurring reversions, the state is expecting something of a windfall from the Public Education Department. Reversions from the State Equalization Guarantee will be bolstered by significantly higher federal impact aid and forest reserve payments. The state takes credit in the SEG for 75 percent of these local revenues. The non-recurring amount is \$40.2 million – roughly \$23 million attributed to higher federal impact aid and forest reserve payments and the remainder attributed to local revenue credits from previous fiscal years. These funds are shown in the next section of this report entitled “Solvency.”

Solvency

Appendix Table 4 details the various parts of the “Solvency Package” enacted in February. Table 10 summarizes the portions of the solvency package that will be recorded on the revenue side of the ledger.

We will discuss each item of the package, and differences from the amounts anticipated.

Table 10 – FY09 Solvency Package & Additional Reversions			
	FY09		
	Feb 09 Adj.	Aug-09	Chg from Previous
	Estimate	Prelim	Estimate
Motor vehicle excise “blue book” admin	6.0	0.0	-6.0
CIT estimate acceleration	58.0	30.0	-28.0
Transfers (posted as reversions)			
Chapter 2/HB 10 Reversions	2.8	2.8	0.0
Chapter 3/SB 79, Section 1 Reversions	0.5	0.5	0.0
Chapter 3/SB 79, Section 2 Reversions	0.5	0.5	0.0
Chapter 5/HB 9 Reversions	87.7	87.7	0.0
SB-79, Section 4, Fund Transfers	105.1	105.1	0.0
HB-2, Section 12 Fund Transfers	2.8	2.3	-0.5
Unclaimed property	6.8	7.9	1.1
Section 8, TANF Contingency Fund	22.1	16.6	5.5
Section 10, Transfer from Tax Stabilization Reserve	55.7	55.7	0.0
Return uncashed rebate warrants to general fund	0.7	0.0	-0.7
Solvency transfers, reversions, other	284.6	279.1	5.5
DoH/HSD GF Medicaid Reversions (HB920)		132.0	132.0
SEG (fed impact aid and forest reserve) reversion		40.2	40.2

The motor vehicle excise tax “blue book” program sought to set a floor on declared motor vehicle values of the Kelly Blue Book wholesale value for the purpose of the motor vehicle excise tax. Apparently after implementing the program and trying it for a few months, TRD determined that the cost of implementation was not adequately covered by the additional revenue collected. The revenue estimates have been adjusted downward as a result.

The CIT estimates acceleration program has apparently generated slightly more than ½ of the amount originally estimated. It is difficult to parse the various influences on CIT revenue – net operating loss carryforwards, lower oil and natural gas prices, the effect of the recession on other corporate profits and cash management decisions by corporate treasurers.

The funds in rows labeled “Chapter 2/HB 10 Reversions,” “Chapter 3/SB 79, Section 1 Reversions,” “Chapter 3/SB 79, Section 2 Reversions” and “Chapter 5/HB 9 Reversions” have been transferred to the appropriation account and booked as reversions. They are, in reality, not revenue but cancelled appropriations of various kinds. However, they will show up on the General Fund audit as non-recurring reversions because these appropriations were previously allotted and the state agencies had to return them by reverting them.

The \$105.5 million in SB-79, Section 4 fund transfers was accomplished by transfer order or accrual entry and the amount of the \$105.5 million has been recognized in the appropriation account.

The HB-2, Section 12 fund transfer will be made at the statutory minimum of \$2.3 million, although up to an additional \$700,000 may be transferred in FY10.

TRD realized \$7.9 million from sale of unclaimed stock held more than three years. Although the stock was not actually sold until late July, the modified accrual rules permit this revenue to be recognized in FY09.

The TANF contingency is still somewhat uncertain. HSD applied for the full amount of \$22.1 million, representing payments from the LICTR program and the working families tax credit to families with children. It was expected that only a portion of the full amount expended by the state would be reimbursed.

The transfer of \$55.7 million from the Tax Stabilization Reserve to the General Fund Operating Reserve will be accrued.

The small transfer of \$.7 million labeled as “return uncashed rebate warrants to General Fund” did not and will not happen. In the ordinary course of events, stale dated warrants should be deemed unclaimed property and escheated to the General Fund. However, cancelling the warrant subject to future claims provides the same result.

The largest non-recurring adjustment that will be made by accounting entry is from the Medicaid funds temporarily housed in the New Mexico Recovery and Reinvestment Fund (Solvency Fund). HSD plans to transfer approximately \$121.7 million and DoH \$10.3 million of Medicaid fiscal solvency bonus funds to the General Fund.

General Fund Financial Summary

Appendix Table 4 shows the General Fund financial summary based on the revenue estimates presented here. This summary shows that there is a lot of work to be done by both the Executive and the Legislature to restore appropriation fund balances and reserves, remedy an approximate \$428 million budget deficit for FY10 and build an adequate budget for FY11. General Fund reserves will likely be targeted at less than 10 percent level for FY09 and FY10.

The Department of Finance and Administration also wants to remind the Legislative Finance Committee and its members and staff that the *structure* of the General Fund reserves must be continually addressed. This point has been previously discussed with the Committee and largely dealt with during the 2009 session.

Risks to the Forecast

- The principal downside risk to this forecast is that the green shoots of economic recovery will wither. Although consumer spending is stabilizing and housing is showing signs of recovery in both units and prices, the economy is still losing jobs. New Mexico may be disadvantaged compared with the nation, because our economy is jobs based, not investment based. IHS Global Insight puts the risk of a “False Dawn” at 20 percent. In this alternative scenario, unemployment exceeds 10 percent, the financial crisis worsens and the economy continues down a long slide to the deepest downturn since the Great Depression.
- There is a significant upside risk, however. President Obama’s economic stimulus and recovery plan (ARRA) is already pumping money into the national and state economies. In a State economy that will lose as many as 30,000 jobs between peak and trough, \$3.0 billion in recovery and reinvestment spending should create 30,000 to 40,000 jobs⁵, leaving the state somewhat better off than the previous baseline. In addition to construction funds, New Mexico may qualify as a “tier 3” state for the purpose of the federal medical assistance percentage (FMAP – Medicaid) reimbursement one quarter earlier than expected, although recently re-estimated 2009:Q2 FMAP has remained at 78.66.
- There are some concerns about both oil and natural gas production levels. Natural decline rates for both existing oil and gas wells are, apparently, over 10 percent per year. As the pace of replacement drilling has faltered, the production base could fall far more rapidly than assumed in the forecasting models. A 2.5 percent decline in natural gas production is expected for the forecast period. Although the near-term crude oil production may be virtually constant, the longer-term expectation is a decline of approximately 1 percent to 2 percent, net of replacement drilling. Recent data from Baker-Hughes shows that the rig count in both the San Juan and Permian basins are less than half the number of rigs as at the peak. Oversupply of natural gas has occupied the attention of many oil and natural gas industry analysts. The consensus group is closely monitoring developments in this area.
- The volatility in the financial markets and the meltdown of the credit markets has significantly affected immediate earnings on State Treasurer’s Office balances. Earnings on state balances for FY10 are expected to be only \$20.0 million – \$33.0 million less than forecast as recently as February. Low interest rates have been coupled with substantially lower amounts on deposit and under investment. However, \$20 million in earnings for FY10 could still not be a low enough estimate under some circumstances.

⁵ Based on a recent analysis of the New Mexico economy, about 27 direct, indirect and induced jobs are created for each \$1,000,000 of construction expenditure. Different aspects of ARRA funding generate different jobs statistics.

- Performance of the Tobacco Settlement Permanent Fund far exceeded the worst assumed in the February estimate. We have cautiously assumed that earnings will average 4.5 percent of year-ending balances for FY10 before resuming the traditional earnings profile of 8.2 percent of the year-beginning balances in the fund. However, there will be no new additions to the corpus of the fund for FY09 and FY10, because of the solvency package.

Appendix Table 1

Economic Assumptions

August 2009

August 2009	FY2009		FY2010		FY2011		FY2012		FY2013		FY2014
	Feb 09 Est.	Aug 09 Est.	Feb 09 Est.	Aug 09 Est.	Feb 09 Est.	Aug 09 Est.	Feb 09 Est.	Aug 09 Est.	Feb 09 Est.	Aug 09 Est.	Aug 09 Est.
NATIONAL ECONOMIC INDICATORS											
US Real GDP Growth (level annual avg, % yoy)*	-1.2	-1.6	-0.8	-0.8	3.2	2.5	3.5	3.6	3.1	3.4	2.7
US Inflation Rate (CPI, annual avg, % yoy)**	1.0	1.4	-0.7	0.5	2.3	2.2	2.2	2.3	2.4	2.1	2.1
Federal Funds Rate (%)	0.68	0.70	0.13	0.13	1.18	0.78	3.05	2.69	3.50	3.50	4.02
NEW MEXICO LABOR MARKET AND INCOME DATA											
NM Non-Agricultural Employment Growth (%)	-0.6	-1.0	-0.1	-0.9	1.7	1.6	1.7	1.9	1.7	1.8	1.4
NM Personal Income Growth (%)***	5.3	5.6	0.8	2.2	2.4	2.7	4.6	4.5	4.9	4.8	5.1
NM Private Wages & Salaries Growth (%)	1.8	2.6	0.7	1.2	3.4	3.3	4.1	3.8	4.3	4.0	3.9
NEW MEXICO CRUDE OIL AND NATURAL GAS OUTLOOK											
NM Oil Price (\$/barrel)	\$62.00	\$65.50	\$47.00	\$63.00	\$53.00	\$70.00	\$58.00	\$72.00	\$65.00	\$76.00	\$80.00
NM Taxable Oil Sales (million barrels)	60.0	62.5	59.4	60.9	58.8	59.6	58.2	58.5	57.8	57.5	56.5
NM Gas Price (\$ per thousand cubic feet)	\$5.60	\$5.60	\$4.80	\$4.30	\$6.20	\$5.60	\$6.90	\$6.50	\$7.00	\$6.70	\$7.10
NM Taxable Gas Sales (billion cubic feet)	1,350	1,390	1,300	1,358	1,280	1,324	1,250	1,289	1,220	1,251	1,216

* real GDP base is BEA chained 2000 dollars, billions, annual rate.

** CPI is all Urban, BLS 1982-84=1.00 base.

*** Personal Income growth rates are for the calendar year in which each fiscal year begins.

Sources: August 2009 economic indicators based on July (2) IHS Global Insight (GI, national), BEA, BLS (state, July), energy forecast on July PIRA, NYMEX, Global Insight and DOE/EIA.

February 2009 economic indicators based on Feb. (10) Global Insight (GI, national), Jan. FOR-UNM (state, 12/31/08 GI), energy forecast on Jan. PIRA, NYMEX, Global Insight and DOE/EIA.

APPENDIX TABLE 2: CONSENSUS REVENUE FORECAST

August 2009 – (dollars in millions)

	FY 2009				FY 2010				FY 2011			
	Feb 09 Adj.	Aug 09	Chng from Feb 09	% Chng frm	Feb 09 Adj.	Aug 09	Chng from Feb 09	% Chng frm	Feb 09	Aug 09	Chng from Feb 09	% Chng frm
	Estimate	Prelim		FY08	Estimate	Estimate		FY09	Estimate	Estimate		FY10
Gross Receipts	1,900.0	1,840.0	-60.0	-1.0%	1,923.5	1,825.4	-98.1	-0.8%	1,970.0	1,900.1	-69.9	4.1%
Compensating	73.0	70.0	-3.0	8.5%	70.0	65.0	-5.0	-7.1%	67.4	62.5	-4.9	-3.8%
Total General Sales Taxes	1,973.0	1,910.0	-63.0	-0.7%	1,993.5	1,890.4	-103.1	-1.0%	2,037.4	1,962.6	-74.8	3.8%
Tobacco	47.0	48.1	1.1	-0.3%	44.7	45.8	1.1	-4.9%	44.9	46.0	1.1	0.5%
Alcohol	25.7	26.2	0.5	4.4%	26.3	26.8	0.5	2.4%	26.8	27.3	0.5	1.6%
Insurance	122.1	124.0	1.9	12.9%	139.5	131.0	-8.5	5.6%	146.8	137.9	-8.9	5.3%
Fire Protection Fund	20.8	23.6	2.8	11.6%	21.3	24.5	3.2	4.0%	16.4	19.7	3.3	-19.8%
Motor Vehicle Excise	104.7	100.5	-4.2	-21.3%	112.7	98.0	-14.7	-2.5%	103.7	105.3	1.6	7.4%
Gaming tax	83.2	70.0	-13.2	24.7%	79.9	75.0	-4.9	7.1%	87.3	86.0	-1.3	14.7%
Leased Vehicle Surcharge	6.2	6.2	-0.1	-27.8%	6.6	6.2	-0.4	0.6%	6.5	6.2	-0.2	0.0%
Other (1)	3.17	1.9	-1.30	-50.6%	3.18	2.9	-0.27	55.6%	3.2	3.0	-0.2	2.1%
Total Selective Sales Taxes	412.9	400.4	-12.5	0.0%	434.2	410.2	-24.0	2.4%	435.5	431.3	-4.18	5.1%
Personal Income	1,213.5	1,015.0	-198.5	-16.4%	1,236.6	1,034.0	-202.6	1.9%	1,260.0	1,097.9	-162.1	6.2%
Corporate & Franchise Income	293.0	200.0	-93.0	-43.6%	273.2	200.7	-72.5	0.3%	290.0	242.5	-47.5	20.8%
Estate	0.0	0.0	0.0	-100.0%	0.0		0.0		0.0		0.0	
Total Income Taxes	1,506.5	1,215.0	-291.5	-22.5%	1,509.8	1,234.7	-275.1	1.6%	1,550.0	1,340.4	-209.6	8.6%
Oil & Gas School Tax	349.51	370.0	20.49	-33.7%	280.61	281.5	0.88	-23.9%	344.50	347.3	2.81	23.4%
Oil Conservation Tax	16.07	18.4	2.33	-32.0%	12.88	14.9	1.98	-19.2%	15.71	17.5	1.81	17.9%
Resources Excise	11.72	11.6	-0.12	9.4%	8.44	8.5	0.06	-26.7%	8.44	8.8	0.31	2.9%
Natural Gas Processors	33.67	40.2	6.48	31.1%	32.66	41.9	9.26	4.4%	23.91	20.3	-3.61	-51.6%
Total Mineral Production Taxes	411.0	440.2	29.2	-29.7%	334.6	346.8	12.2	-21.2%	392.6	393.9	1.3	13.6%
Total License Fees	50.4	53.8	3.4	6.2%	51.68	56.4	4.69	4.7%	52.8	59.1	6.3	4.8%
Land Grant Permanent Fund	433.2	433.2	0.0	10.9%	436.2	436.5	0.3	0.8%	434.0	438.3	4.3	0.4%
Earnings on State Balances	60.0	66.4	6.4	-29.1%	53.0	20.0	-33.0	-69.9%	67.0	27.0	-40.0	35.0%
Severance Tax Perm. Fund	191.3	191.3	0.0	8.0%	186.9	187.1	0.2	-2.2%	179.4	181.5	2.1	-3.0%
Total Investment Income	684.5	690.9	6.4	4.5%	676.1	643.6	-32.5	-6.8%	680.4	646.8	-33.6	0.5%
Federal Mineral Leasing	506.0	507.0	1.0	-10.1%	301.5	290.0	-11.5	-42.8%	374.3	378.0	3.7	30.3%
State Land Office	34.7	36.4	1.7	-21.0%	30.8	31.7	0.9	-12.9%	34.3	35.0	0.7	10.4%
Total Rents, Royalties	540.7	543.4	2.7	-11.0%	332.3	321.7	-10.6	-40.8%	408.7	413.0	4.4	28.4%
Total Miscellaneous Receipts	43.17	48.3	5.12	-3.9%	44.17	43.6	-0.56	-9.7%	45.3	43.8	-1.5	0.4%
Tribal Revenue Sharing	65.6	64.9	-0.7	-2.5%	68.4	64.7	-3.7	-0.3%	71.9	65.7	-6.2	1.5%
Reversions	39.3	51.0	11.7	-13.5%	40.0	40.0	0.0	-21.6%	41.2	41.2	0.0	3.0%
Total Recurring Revenue	5,727.0	5,417.9	-309.1	-9.9%	5,484.6	5,052.0	-432.6	-6.8%	5,715.6	5,397.8	-317.9	6.8%
Rebate (Sept. 2008)	-55.7	-55.7	0.0									
Non-recurring reversions		172.3	172.3									
CIT estimate acceleration	58.0	30.0	-28.0									
Solvency plan	284.6	279.1	5.5				0.0					
Grand Total Revenue	6,013.9	5,843.4	-170.5	-3.6%	5,484.6	5,052.0	-432.6	-13.5%	5,715.6	5,397.8	-317.9	6.8%
Oil and gas share of General Fund	21.3%	25.8%			12.0%	13.1%			13.9%	14.8%		

(1) Other selective sales taxes include racing, private car, boat excise, gasoline excise, and telecommunications relay surcharge 3% administrative fee.

APPENDIX TABLE 2: CONSENSUS REVENUE FORECAST

August 2009 – (dollars in millions)

	FY 2012				FY 2013				FY 2014	
	Feb 09	Aug 09	Chng from	% Chng	Feb 09	Aug 09	Chng from	% Chng	Aug 09	% Chng frm
	Estimate	Prelim	Feb 09	frm FY11	Adj. Estimate	Estimate	Feb 09	frm FY12	Estimate	FY13
Gross Receipts	2,055.0	1,960.1	-94.9	3.2%	2,145.0	2,020.1	-124.9	3.1%	2,080.1	3.0%
Compensating	70.2	65.3	-4.9	4.5%	73.1	68.2	-4.9	4.4%	71.2	4.4%
Total General Sales Taxes	2,125.2	2,025.4	-99.8	3.2%	2,218.1	2,088.3	-129.8	3.1%	2,151.3	3.0%
Tobacco	45.1	46.2	1.1	0.5%	45.4	46.5	1.1	0.6%	46.7	0.5%
Alcohol	27.3	27.8	0.5	1.8%	27.8	28.3	0.5	1.9%	28.8	1.9%
Insurance	154.7	145.2	-9.5	5.3%	163.0	152.9	-10.1	5.3%	161.0	5.3%
Fire Protection Fund	14.7	18.0	3.3	-8.4%	13.1	16.4	3.3	-9.2%	14.7	-10.1%
Motor Vehicle Excise	106.8	108.5	1.7	3.0%	110.0	111.8	1.8	3.0%	115.1	3.0%
Gaming tax	89.4	89.0	-0.4	3.5%	90.8	90.0	-0.8	1.1%	92.0	2.2%
Leased Vehicle Surcharge	6.5	6.2	-0.3	0.0%	6.5	6.2	-0.3	0.0%	6.2	0.0%
Other (1)	3.2	3.0	-0.2	2.0%	3.21	3.1	-0.12	2.0%	3.2	1.9%
Total Selective Sales Taxes	447.6	443.9	-3.7	2.9%	459.8	455.1	-4.7	2.5%	467.7	2.8%
Personal Income	1,320.0	1,153.9	-166.1	5.1%	1,380.0	1,208.9	-171.1	4.8%	1,258.9	4.1%
Corporate & Franchise Income	310.0	292.5	-17.5	20.6%	340.0	332.5	-7.5	13.7%	352.5	6.0%
Estate			0.0				0.0			
Total Income Taxes	1,630.0	1,446.4	-183.6	7.9%	1,720.0	1,541.4	-178.6	6.6%	1,611.4	4.5%
Oil & Gas School Tax	374.02	378.1	4.0	8.9%	381.99	385.9	3.9	2.1%	398.0	3.1%
Oil Conservation Tax	17.10	18.9	1.8	7.6%	17.48	19.2	1.8	2.0%	19.8	3.0%
Resources Excise	8.44	9.0	0.6	2.9%	8.44	9.3	0.8	2.8%	9.5	2.7%
Natural Gas Processors	24.71	24.2	-0.5	19.3%	26.12	27.9	1.7	15.0%	27.1	-2.8%
Total Mineral Production Taxes	424.3	430.1	5.9	9.2%	434.0	442.3	8.2	2.8%	454.4	2.7%
Total License Fees	54.8	62.0	7.2	4.9%	57.7	65.0	7.4	5.0%	68.3	5.0%
Land Grant Permanent Fund	431.2	438.8	7.6	0.1%	400.5	410.2	9.7	-6.5%	401.8	-2.0%
Earnings on State Balances	71.0	33.4	-37.6	23.7%	75.0	33.5	-41.5	0.3%	33.6	0.3%
Severance Tax Perm. Fund	171.6	175.8	4.2	-3.1%	160.4	166.8	6.4	-5.1%	156.7	-6.1%
Total Investment Income	673.8	648.0	-25.8	0.2%	635.9	610.5	-25.4	-5.8%	592.1	-3.0%
Federal Mineral Leasing	416.1	414.0	-2.1	9.5%	428.0	429.0	1.0	3.6%	440.0	2.6%
State Land Office	36.2	36.9	0.7	5.4%	36.7	37.3	0.6	1.1%	38.1	2.1%
Total Rents, Royalties	452.3	450.9	-1.4	9.2%	464.7	466.3	1.6	3.4%	478.1	2.5%
Total Miscellaneous Receipts	46.4	44.0	-2.4	0.4%	47.6	44.2	-3.4	0.5%	44.5	0.6%
Tribal Revenue Sharing	75.5	67.7	-7.8	3.0%	79.3	71.1	-8.2	5.0%	74.7	5.1%
Reversions	42.4	42.4	0.0	2.9%	43.7	43.7	0.0	3.1%	45.1	3.2%
Total Recurring Revenue	5,972.3	5,660.8	-311.5	4.9%	6,160.8	5,828.0	-332.9	3.0%	5,987.5	2.7%
Rebate (Sept. 2008)										
CIT estimate acceleration										
Solvency Plan							0.0			
Grand Total Revenue	5,972.3	5,660.8	-311.5	4.9%	6,160.8	5,827.96	-332.9	3.0%	5,987.5	2.7%
Oil and gas share of General Fund	14.5%	15.4%			14.5%	15.4%			15.4%	

Appendix Table 3 – FY09 Solvency Plan

(Dollars)

		Appropriation Account					From Other Reserve Accts
		Allotment Reduction	Reversion	Operating Transfer	Revenue	Total	
HB 9	Capital Outlay Cuts and Reauthorizations	2,500,000	87,714,989			90,214,989	
HB 10	Reduce Certain General Fund Appropriations						
	2008 HB 1 Reductions	107,500				107,500	
	2008 HB 2 Reductions	160,892,000	2,843,400			63,735,400	
	Subtotal HB 10	160,999,500	2,843,400	-	-	163,842,900	-
SB 79	Fund Transfers and Appropriation Cuts						
	Section 1, Legislative Branch Appropriations		356,100			356,100	
	Section 1, Legislative Branch Appropriations (nr portion)		21,700			21,700	
	Section 1.D 2009 Session appropriation reduction		208,168			208,168	
	Section 2, SB 165 reductions		497,000			497,000	
	Section 3, Fund Transfers			105,050,000		105,050,000	
	Section 4, Transfer to Tobacco Settlement Program Fund					-	(22,450,000)
	Section 5, Appropriations and Transfers from the Fire Protection Fund				1,640,000	1,640,000	
	Section 6, SB 22 Special Session	27,000,000				27,000,000	
	Section 8, TANF Contingency Fund			16,586,715		16,586,715	
	Section 9, Appropriation to State Equalization Guarantee					-	(35,753,600)
	Section 10, Transfer from TSR to GF			55,700,000		55,700,000	(55,700,000)
	Subtotal SB 79	27,000,000	1,082,968	177,336,715	1,640,000	207,059,683	(113,903,600)
SB 80	Corporate Income Tax Reporting Dates	-	-	-	58,000,000	58,000,000	-
Grand Total		190,499,500	91,641,356	177,336,715	59,640,000	519,117,571	(113,903,600)

Appendix Table 4 – General Fund Financial Summary
August 2009 Consensus Forecast
(Dollars in Millions)

	Audited FY08	Preliminary FY09	Estimated FY10	Estimated FY11
APPROPRIATION ACCOUNT				
REVENUE				
Recurring Revenue, August 2009 Consensus Estimates	6,015.5	5,417.9	5,052.0	5,397.8
Nonrecurring Revenue, August 2009 Consensus Estimates	47.2	425.6	0.0	
TOTAL REVENUE	6,062.6	5,843.4	5,052.0	5,397.8
APPROPRIATIONS				
Recurring Appropriations	5,675.0	6,002.3	5,487.7	5,397.8
Nonrecurring Appropriations	295.1	-43.0	100.0	0.0
TOTAL APPROPRIATIONS	5,970.0	5,959.3	5,587.7	5,397.8
Transfer to/from General Fund Operating Reserve	92.6	-115.9	-535.6	0.0
GENERAL FUND OPERATING RESERVE				
Beginning Balance	156.1	247.2	129.9	-408.0
Appropriations	-1.5	-1.5	-2.3	-2.3
Transfers In Appropriation Account	92.6	0.0	0.0	0.0
Transfers Out Appropriation Account	0.0	-115.9	-535.6	0.0
Ending Balance	247.2	129.9	-408.0	-410.3
Ending Balances as a % of Prior Year Recurring Appropriations	4.8%	2.3%	-6.8%	-7.5%
STATE SUPPORT RESERVE				
Beginning Balance	1.0	1.0	1.0	1.0
Ending Balance	1.0	1.0	1.0	1.0
APPROPRIATION CONTINGENCY FUND				
Beginning Balance, Excluding Education Reform	47.7	27.5	9.2	22.5
Expenditures	-26.9	-25.7	-17.0	-16.0
Revenue, Transfers and Reversions	6.7	7.5	30.2	5.2
Ending Balance, Excluding Education Reform	27.5	9.2	22.5	11.7
Education Reform, Beginning Balance	74.9	69.1	19.0	59.0
Transfers In	0.0	0.0	40.0	0.0
Transfers Out	-5.9	-50.0	0.0	
Ending Balance, Education Reform	69.1	19.0	59.0	59.0
Ending Balance	96.6	28.3	81.5	70.8
TAX STABILIZATION RESERVE				
Beginning Balance	254.4	254.4	198.7	198.7
Transfers In	0.0	0.0	0.0	0.0
Transfers Out	0.0	-55.7	0.0	0.0
Ending Balance	254.4	198.7	198.7	198.7
Ending Balances as a Percentage of Prior Year Recurring Appropriations	0.0	0.0	0.0	0.0
TOBACCO SETTLEMENT PERMANENT FUND				
Beginning Balance	116.7	135.9	121.0	126.4
Transfers In, December 2008 Consensus Estimate	44.9	48.6	48.6	48.6
Transfers Out	-22.4	-48.6	-48.6	-24.3
Gains or (Losses)	-3.3	-14.9	5.4	10.4
Ending Balance	135.9	121.0	126.4	161.0
TOTAL BALANCES	735.1	478.8	-0.4	21.2
Reserves as a % of Current-year Recurring Appropriations	13.0%	8.0%	0.0%	0.4%
New Money – recurring				(89.9)
Deficit for current year (Reserving 10% of current year recur. Approps)		(121.5)	(427.7)	
Restricted sub-accounts	62.5%	70.7%		

Notes to General Fund Financial Summary:

"Reserves as a Percentage of Current-year Recurring Appropriations" is calculated by dividing each year's ending total reserve balance by the total recurring appropriations for that year. E.G. for FY08, $218.2/6,026.8 = 3.62\%$

"New Money – recurring" is calculated by subtracting *previous* year's recurring appropriations from *current* year's recurring revenue. E.G. for FY10, $5,733.3 - 6,026.8 = 293.5$

"Deficit for current year (Reserving 10% of current year recur. approps)" is calculated by subtracting 10% of current year's appropriations from the level of total reserve balance for that year. E.G., for FY09, $218.2 - 10\% \times 6,026.8 = (384.4)$

"Nonrecurring subject to appropriation" is calculated by subtracting total reserve balances for the budget year from 10% of the same year's total recurring revenue. E.G. for FY10, $225.8 - 10\% \times 5,733.3 = (347.5)$

"Restricted sub-accounts" is calculated by summing the final balance for the fiscal year in the "Education Lock-box", the Tax Stabilization Reserve and the Tobacco Settlement Permanent Fund and dividing by the total reserve balances for the fiscal year. E.G., for FY09, $(67.4 + 254.4 + 131.2) / 218.2 = 207.5\%$

Further note that the budget for FY10 must be balanced and the Governor and Legislature apparently agree that spending and revenues must result in 10% General Fund reserve balances at the end of FY10.

Appendix Table 5 – Current Status of ARRA Funds Status as of 8_13_09

Program Sort by Recipient and Federal Agency	Estimated ARRA Amount - US	Estimated ARRA Amount in Thousands - NM
Total	318,814,150.0	3,187,747.6
Allocations to State Agencies Sorted by Federal Agency	255,451,150.0	2,113,055.9
Education and Stabilization	75,098,500.0	531,371.3
National Endowment for the Arts	19,800.0	297.0
Health and Human Services	96,472,500.0	814,402.6
Corporation for National Community Service	-	513.4
Transportation	28,265,800.0	264,900.0
Environmental Protection Agency	6,500,000.0	42,253.4
Energy	11,200,000.0	70,174.1
Agriculture	20,195,800.0	176,710.0
Housing	4,050,000.0	24,457.4
Justice	2,278,750.0	13,642.6
Labor	11,370,000.0	137,511.1
Treasury	-	36,823.0
Direct Allocations to Non-State Entities in New Mexico	35,868,000.0	367,707.4
Native American	1,863,000.0	28,173.9
Grant Expended Directly by Federal Agencies	5,090,000.0	678,810.5
Incentive/Other	20,542,000.0	-

Appendix Table 6 – STATES WITH FY2010 BUDGET GAPS				
	FY2010 before budget adoption	FY2010 mid year gap	FY2010 Total	FY2010 Total – % of Budget
California*	\$26.0 billion	\$19.5 billion	\$45.5 billion	49.30%
Arizona	\$4.0 billion	0	\$4.0 billion	41.10%
Nevada	\$1.2 billion	0	\$1.2 billion	37.80%
Illinois*	\$13.2 billion	0	\$13.2 billion	37.70%
New York	\$17.9 billion	\$2.1 billion	\$20.0 billion	36.10%
Alaska	\$1.3 billion	0	\$1.3 billion	30.00%
New Jersey	\$8.8 billion	0	\$8.8 billion	29.90%
Vermont	\$278 million	0	\$278 million	24.80%
Connecticut	\$4.2 billion	0	\$4.2 billion	23.90%
Georgia	\$3.1 billion	\$1.0 billion	\$4.1 billion	23.80%
Washington	\$3.4 billion	\$195 million	\$3.6 billion	23.30%
Wisconsin	\$3.2 billion	0	\$3.2 billion	23.20%
Florida	\$5.9 billion	0	\$5.9 billion	22.80%
Kansas	\$1.4 billion	Yes, DK size	\$1.4 billion	22.60%
North Carolina	\$4.6 billion	0	\$4.6 billion	21.90%
Louisiana	\$1.8 billion	0	\$1.8 billion	21.60%
Maine	\$640 million	0	\$640 million	21.40%
Minnesota	\$3.2 billion	0	\$3.2 billion	21.00%
Utah	\$721 million	\$279 million	\$1.0 billion	19.80%
Rhode Island	\$590 million	0	\$590 million	19.20%
Hawaii	\$682 million	\$297 million	\$978 million	19.10%
Maryland	\$1.9 billion	\$700 million	\$2.6 billion	18.70%
Colorado	\$1.0 billion	\$384 million	\$1.4 billion	18.60%
Pennsylvania	\$4.8 billion	0	\$4.8 billion	18.00%
Massachusetts	\$5.0 billion	0	\$5.0 billion	17.90%
Delaware	\$557 million	0	\$557 million	17.60%
Alabama	\$1.2 billion	0	\$1.2 billion	16.70%
Idaho	\$411 million	0	\$411 million	16.40%
New Hampshire	\$250 million	0	\$250 million	16.20%
New Mexico***	\$345 million	\$428 million	\$773 million	14.13%
Oklahoma	\$777 million	0	\$777 million	13.60%
Iowa	\$779 million	0	\$779 million	13.20%
District of Columbia	\$650 million	\$150 million	\$800 million	12.70%
South Carolina	\$725 million	0	\$725 million	12.50%
Ohio	\$3.3 billion	0	\$3.3 billion	12.30%
Michigan	\$2.4 billion	0	\$2.4 billion	12.00%
Kentucky	0	\$1.1 billion	\$1.1 billion	11.30%
Virginia	\$1.8 billion	Yes, DK size	\$1.8 billion	10.90%
Missouri	\$923 million	0	\$923 million	10.30%
Tennessee	\$1.0 billion	0	\$1.0 billion	9.70%
Mississippi	\$480 million	0	\$480 million	9.60%
Texas	\$3.5 billion	0	\$3.5 billion	9.50%
Indiana	\$1.1 billion	0	\$1.1 billion	7.50%
New Mexico	\$345 million	Yes, unknown size	\$345 million	6.3%
West Virginia	\$184 million	0	\$184 million	4.90%
Nebraska	\$150 million	0	\$150 million	4.30%
Arkansas	\$146 million	0	\$146 million	3.20%
South Dakota	\$32 million	0	\$32 million	2.90%
Wyoming	0	\$32 million	\$32 million	1.70%
Oregon*	0	0	0	0.00%

*** Approximate ranking for New Mexico if the revenue estimate in this report had been included in the analysis.
Source: Center for Budget and Policy Priorities, August 11, 2009